

Cloud computing: opportunity or threat for the IT channel?

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Executive summary

In these rapidly changing times, adoption of cloud computing models is on the rise, while traditional technology implementation projects are in decline. Yes, cloud is everywhere, but it's not enough to simply be aware of the paradigm shift. Leaders in the IT channel want to know: is cloud computing an opportunity or a threat? And what can be done about it? One way to approach this question is by understanding that cloud has a different impact on each of five distinct types of resellers. Analyzing the current and potential impact of cloud through such a lens sharpens our view of how IT resellers and integrators can seize the opportunity to help enterprises take advantage of the cloud for business innovation. Instead of relying on dwindling revenue streams for risk-prone, old-school projects, leaders in the IT channel must modernize with flexible yet robust information system (IS) tools that allow them to hold their position as trusted advisors for their client's chosen cloud platform—that is—if they wish to secure new and continued long-term relationships.

Introduction

In 2007, a modest 450 delegates trickled into the first 'Cloud' Expo in New York at a time when most people weren't even familiar with the term. In 2011, Cloud Expo in New York will bustle with more than 7,000 delegates and 200 sponsors and exhibitors. Authoritative industry analyst Gartner has named cloud computing the *number one* priority for CIOs in 2011. At the recent Dreamforce event hosted by Salesforce.com, one of the pioneers of the Cloud marketplace, an amazing 24,000 attendees were recorded. By 2012, Gartner predicts that 20 percent of

‘Cloud has a different impact on each of five distinct types of resellers’

businesses will own no IT assets. In a few short years, cloud computing has gone from virtually unheard of to virtually unavoidable—and these days, it's where everyone and everything is headed. Every top ISV—Microsoft, IBM, Google, Amazon—*everyone* is going to the cloud. By 2020, a significant portion of the 'digital universe' will be centrally hosted, managed, or stored in public or private repositories that today we call 'cloud services.' And even if a byte in the Digital Universe does not 'live' in the cloud permanently, "it will, [in] all likelihood, pass through the cloud at some point in its life" (IDC). You could say there's a cloud revolution happening, but it's really more pervasive than that. In fact, no part of our lives will go untouched by what is yet to come. The worlds of business, finance, government, education, healthcare and so on will never be the same. And so, for those in the IT channel confronting this next generation delivery model, the key question inevitably arises: Is cloud computing a threat or an opportunity?

Five types of resellers

Of course everyone knows that cloud will have an impact, but it's far more difficult to be certain what the impact will be in a specific case. To really understand the extent of the threat or

'CLOUD COMPUTING' AND OTHER TERMS

The term cloud computing is evolving. Here is a breakdown of associated terms that will assist in putting it all in context. **Traditional development** is used to denote a development effort involving, e.g., programmers, DBAs, a Project Manager – and technologies such as Java, RDBMS. **Cloud computing** is "a model for enabling convenient, on-demand network access to a shared pool of configurable computing resources [...] that can be rapidly provisioned and released with minimal management effort or service provider interaction." (National Institute of Standards and Technology, Information Technology Laboratory) **Cloud Platform as a Service (PaaS)** [is] the capability provided to the consumer [of computing capabilities] to deploy onto the cloud infrastructure consumer-created or acquired applications created using programming languages and tools supported by the provider." Cloud services can be deployed on, e.g., public or private infrastructure, making them highly relevant also for enterprises that do not wish to share computing resources with others. **Non-programming cloud development platforms**, as popularized by PaaS and representing a subset thereof, is used to denote entirely cloud-based development platforms that allow business users to participate in the development process. **IS Tools** refers to the leading product (and the company of the same name) in the above-named category. An **information system (IS)** is any combination of information technology and people's activities using that technology to support operations, management, and decision-making.

opportunity for any individual participant in the IT channel, one must employ some frame of reference.

The simplest starting point is to look at the impact of the cloud on what the reseller actually does. There are many types of partners out there, selling many types of products and services. Yet within the huge variety of people and companies in the IT channel, it's possible to identify five specific roles. Most channel participants are some combination of two or more of these five types. Some encompass all five at once.

Staffing Partner. The staffing partner doesn't try to understand the intricacies of an IT project—the architecture, the infrastructure or the specific needs, wants and finer details involved. Their role is simpler than that: Need a developer? They have one. Need a database developer? They have it covered. In simplest form, they are an HR staffing firm with a tech focus.

Objective Provider. If a client needs a solution, the objective provider isn't associated with any specific technology or vendor; they're told what is needed and they deliver on the project. Using different skills in different areas, their strength is in project development and delivery without relying on any specific product or technology. Some may focus more on a certain vertical or business problem. Overall, this group is made up of the more “traditional” systems integrators. Choose the architecture, the technology—and they will integrate it and implement a solution.

Expert Provider. This is a role that often overlaps with others. For example, a staffing or objective partner may provide experts in certain vertical areas—security, database management, or on a specific technology such as .NET or Java. Some of the providers have experts in a specific business

problem, such as, *how do you do CRM?* or *how do you do inventory management?* These resellers sell their expertise on a time and materials or project basis. They are technology specific, solve a business problem and provide the necessary skills to get the job finished, from project management to quality assurance.

ISV Partner. This is a company working with one or more ISVs, building a business around technology from the likes of Microsoft, IBM or Oracle. With a large ISV, the partner may focus on a specific vertical product from that ISV. They might be an IBM partner focusing on Tivoli, or a Microsoft partner specializing in SharePoint. There are also ISV partners of much smaller companies that focus on a specific business issue like BI (business intelligence) or security. This role is often also an expert provider: for example, an expert provider with skill in firewalls and security might be a Checkpoint partner, or in partnership with multiple providers such as both Checkpoint and Cisco.

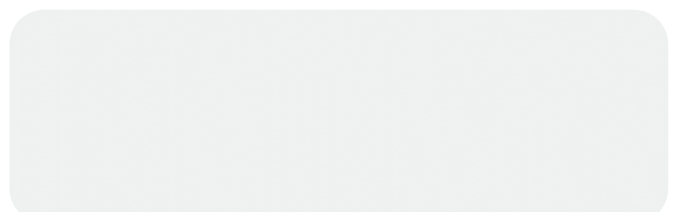
Infrastructure Partner. The infrastructure partner sells machines, networks, everything that is in the infrastructure—routers, cables, servers; there are many companies in the IT channel that deal specifically with infrastructure.

Further broken down, what each of the five types of resellers actually sells to the customer is a combination of:

- time
- skill (per time or milestone)
- projects (fixed price and T&M)
- technology (software, solutions, infrastructure)

...or at least, it was. Consider that these descriptions are in terms of the way things have progressed up to the present time, which is to say, they constitute a largely *pre-cloud* view of the IT channel structure.

☞ *The simplest starting point is to look at the impact of the cloud on what the reseller actually does* ☞



Cloud: opportunity or threat?

Now, let's examine the impact of cloud computing and whether it's an opportunity or threat to each reseller type.

Staffing partner

Traditionally, people have sold time and hourly rates. How does cloud affect that? In terms of technology, this may be an area where cloud has the least impact. Consider however the potential of 'crowd-sourced' labor and skills platforms such as Mechanical Turk or eLance to commoditize manpower services in the cloud. We are no longer just talking about Amazon and the actual infrastructure or technology; here, cloud technology and globalization changes the way people think, and it's changing the way people find and buy services.

In the staffing or time approach, cloud suddenly makes it a lot easier for an Indian company to compete with, for example, an American or European entity. Just have a look at eLance or any other online service marketplace, and you'll see people from all over the world responding to offers.

If the customer is already using cloud technology, it's no longer as significant—or even a necessity—to have local staffing. Before, on-site servers and in-house data centers required a geographic or physical proximity to the job. But if the servers reside with Amazon, it doesn't matter where you're getting access to them (as long as the connections remain secure).

Thus, a cloud mindset coupled with the new realities of cloud computing is beginning to turn the world of staffing upside down. This is not business as usual. Those on the staffing side of the IT channel need to understand, be prepared for and rapidly adjust to this new reality.

Now, customers care more about business value. They care about results

Objective provider

Until cloud came along, not being associated with any technology was a major plus. Objectivity mattered. Whatever the client chose, whether it was IBM, DB2, .NET or anything else—the provider could arrive on the scene and provide help, assemble an integration team, and move forward with implementation.

Now, customers care less about objectivity and more about business value. They care about results. The client could care less if it's a DB2 or an Oracle database behind the scenes, or if it is Java, .Net or PHP. It simply does not matter—it's cloud. Whichever app server is no longer the question. Clients can now focus on what matters most: they want results, they want systems that work well and perhaps, more importantly, considering the recent economic environment—they want value.

Meanwhile, an objective partner may find that they're selling something a lot of people are not necessarily going to want to buy anymore. Instead of looking for skills throughout a lengthy project, the proposition is now as in "bring me value! I don't care if you do it in a day!"

Here, cloud is at once a threat and an opportunity. It is a threat to the established model for this reseller role, and yet it also offers a new opportunity through its ability to deliver value rapidly. Those smart and fast-moving providers in the IT channel can avert the threat—and create an opportunity to provide precisely what their clients have always wanted.

Expert provider

Selling in the vertical area of security? That, too, is changing by the mere fact that cloud security raises different issues than traditional security. It is enough to think about virtual private clouds and the mobile revolution in terms of devices that need to get access to corporate data—to understand that it is not as it used to be!

If you're an expert provider, many areas will be affected by broader standardization. Up until cloud, most companies

had .NET, Java, DB2, Oracle, MySQL; they had Microsoft technologies, IBM technologies, and some companies simply used any and every technology available. But now, if a company is standardizing on a Salesforce infrastructure and they're using the service cloud, chatter cloud, sales cloud and database.com or whatever else, then your traditional skills and expert level are no longer relevant.

As more systems begin to run on the cloud, it will become increasingly standardized. The cloud will only work to further expand standardization within the enterprise.

Though there will always be a need for an expert, it will be different types of expertise and skills than the current expert provider is offering. Expertise in cloud platforms will become the sought-after skillset.

ISV partner

Relying on an IBM or Microsoft ecosystem? You must be aware that those companies are moving into the cloud. Try to name one large technology company that is *not* moving to the cloud in a big way—which means that there will be changes in the way companies like Oracle, HP, EMC, Dell, SAP work with their partners.

In the past, you may have been relying on and living off an IBM or Microsoft ecosystem. Now, with Microsoft Azure, for example, a lot of the work you used to do in setting up the environment for the customer—installation, updates, getting the server up and running, etc.—is no longer necessary. Servers are provisioned virtually. Installation is automatic. Companies will be using versions that come cloud-enabled.

So the bad news is: everything is going to the cloud. Fortunately, the good news also is: *everything is going to the cloud*. Let's look at the role and responsibilities of an ISV partner. Pre-cloud, you used to sell technology, install and configure it,

compete against technology alternatives and convince customers to buy it—and then provide them with ongoing support. This will no longer be the case.

If you run your company based on 35 percent commission over \$10M of product sales – are you ready to adjust and sell the license on a monthly usage basis? Can you accept lower margins and lower services revenue? How do you change your internal compensation structure and cash flow?

It is a completely different business model for the ISV; therefore, it is a completely different business model for you as a channel partner for these ISVs. The business no longer revolves around selling the ISV's platform and then moving on. Instead, the opportunity lies in what you can bring to the customer to enhance, extend and get the best out of the ISV's platform.

Infrastructure partner

The infrastructure partners are clearly affected in the same way. Everyone's going to the cloud.

If you used to sell servers, you must already see a major change. Customers are buying data center services, or provisioning virtual servers with VMware. Customers are buying storage space, bandwidth and processing power – not boxes. Customers are buying usage and capacity and not devices and hardware. All this won't necessarily happen tomorrow — some of it is going to happen much faster, some slower — but it's all happening.

Cloud infrastructure will affect networking, telephony user devices; it will affect everything.

It is not just the “public” cloud architecture that is affecting the infrastructure players. Take Oracle as an example. Oracle is now selling “cloud in a box”(!). You simply buy one piece of hardware that is already put together for you, and with it you can support hundreds of thousands of users and thousands of

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applications — all from one box. No need for networking, servers, installations etc.

Instead of buying one server per application, customers will use virtualization and flexible provisioning to get the most out of the hardware that they already own.

Cloud is clearly impacting the infrastructure providers in more than one way, how it will affect individual providers really depends on what changes each of them make today. Instead of supplying infrastructure components, providers must turn into infrastructure platform providers, offering a complete cloud capability to their customers.

In summary

Imagine this: Salesforce.com is supporting over 80,000 companies and millions of users with *only* 1,600 servers in their cloud infrastructure. Do the same with “traditional” IT infrastructure and it would require more than 100,000 servers, thousands of network appliances, thousands of software licenses, and many thousands of hours of technical and professional services.

It is clear – customers are shifting away from buying time or skills to buying results, value or usage of technology and services. These are just some of the scenarios and ways that the cloud is changing everything.

The question now becomes, what can one do in the face of all of these changes?

The IT Channel must adjust to survive. The market for much of what it has done in the past is shrinking. But as customers adapt their computing to the cloud, new opportunities arise to help customers make the transition. IT resellers can find a

Customers are shifting away from buying time or skills to buying results

prosperous new niche providing the business value and cloud platform skills that enterprises now seek.

The cloud poses a tremendous threat—but only to those who refuse to be flexible and who refuse to look and adjust for the future. For those who keep pace, adjust and innovate, the cloud presents a tremendous, once-in-a-lifetime opportunity.

PaaS — the cloud opportunity for the IT channel

Cloud technology and its ecosystem is still evolving and being defined. As well as public cloud, private cloud, and hybrid combinations of the two, there are three layers of cloud functionality.

- **SaaS** – *Software as a Service* – at the application layer is the most established of the three
- **IaaS** – *Infrastructure as a Service* – at the foundation layer is growing in importance
- **PaaS** – *Platform as a Service* – at the development layer in between the two is the most recent to develop and the one with the most growth potential. This is the layer that provides the more interesting opportunities for the IT Channel

SaaS is dominated by existing and emerging ISVs, and partners will have to adjust their service offering to a totally different world in which you don't need to install, configure and support an in-house implementation of software. The change of business model from perpetual licenses to pay-as-you-go poses a further challenge. Some providers will have their own SaaS offerings that will develop over time, but it won't be an easy shift.

The IaaS market will become heavily standardized, require heavy capital investments and will thus eventually work its way through the traditional industrial evolution cycle characterized

by economy of scale and consolidation. This will in turn give the large providers and players the upper hand. The current IT channel will most probably not be able to compete directly in this market. Its role will be more of an affiliate or private-label provider of one of the larger players. Margins will decrease in this highly commoditized market.

PaaS is by far the most interesting layer of the cloud market for the IT channel. It is the area where most of the work of the IT channel existed before — integration, making things work and the essence of what customers are prepared to pay for: realized competitive advantage and business value.

PaaS will be the glue that connects IaaS and SaaS — and PaaS will be the glue that connects the existing non-cloud environment and the new cloud-based infrastructure. This is where help and expertise will be most in demand, and where customers can get real business value by harnessing the cloud platform to their competitive strengths.

Because of the adaptability and flexibility of PaaS, this is where a provider can emphasize its unique selling point, whether it is objectivity, expertise or understanding of a business problem. PaaS is where innovation and growth will be easiest to realize — and to capitalize on.

PaaS is where IT channel players should focus their attention. This is where they can actually bring value to customers and develop relationships that last for many years because they're running or using the provider's platform. Platform as a service is where the IT Channel could actually make a difference, and benefit from the paradigm shift called "Cloud".

Conclusion

Cloud is big. Cloud is happening. It's going to affect every aspect of the IT channel. It's hard to predict in detail how and to what extent it will affect each individual provider, but it will have an unimaginably broad-reaching effect. The savvy providers who act early on, by embracing the cloud and the


changes it brings, rather than reacting later — will have the opportunity to master success. But the ones that will not, and those who think that cloud is just all hype — will soon wither and die away. Indeed, they will soon find it very hard to remain in business.

IS Tools — the proven alternative

IS Tools software enables users both to create and distribute business applications using only a web browser. IS Tools has a proven track record to run the more complex and heavier applications that larger corporations must rely on to support their businesses. IS Tools PaaS solution is available to assist IT channel partners in building their business and in helping their clients expand as well.

A privately-owned company based in Stockholm, Sweden, IS Tools was founded in 2003 by its current owners as a software company with a vision to provide adaptive, lean, flexible and dynamic information systems for company business processes characterized by change and constant evolution.

More than 50,000 paying corporate users enjoy the value and benefits of IS Tools PaaS, creating, enabling and accessing hundreds of millions of data records. With thousands of 'citizen developed' data entry forms, reports and imports — IS Tools enables the collection and delivery of the right data to the right place implementing 24/7 business logic and process automation.

The IS Tools mission is to provide an easy to use enterprise grade application development and IT-operations framework enabling non-technical users to realize and evolve custom applications extremely fast. This enables IS Tools customers to continuously bring their business innovations to the market in a very short time frame and on a larger scale — resulting in business momentum and a sustainable competitive advantage. 



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